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ALSCOPE

CONSOLIDATED LTD.

Report and Financial Statement

FISCAL YEAR ENDED OCTOBER 31, 1968



Incorporation

Incorporated under the laws of the Province of Alberta
September 27, 1954.

Capitalization

Authorized Capital (No Par Value).....	20,000,000 shares
Issued.....	9,623,326 shares
In Treasury.....	10,376,674 shares

Officers

NICHOLAS MARTINI, President
V. M. PRESCOTT, Secretary - Treasurer

Directors

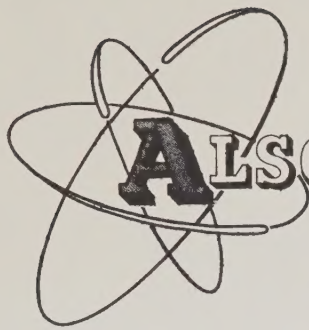
NICHOLAS MARTINI
V. M. PRESCOTT
CHARLES TROMBETTA, JR.
DR. JULIUS KUHL
L. W. PRESCOTT

Auditors

DUNWOODY & COMPANY
Internationally
LASSER, HARMOOD BANNER & DUNWOODY

Share Transfer Agents

GUARANTEE TRUST CO. OF CANADA
Edmonton, Montreal, Toronto and Vancouver



ALSCOPE *Consolidated Ltd.*

549 HOWE STREET, VANCOUVER 1, CANADA • PHONE: MUTUAL 5-8241

PLEASE REPLY TO:

663 MAIN AVENUE, PASSAIC, NEW JERSEY 07055 • PHONE: 773-0400

June 14, 1969

PRESIDENT'S REPORT

Dear Alscope Shareholder:

I report to you this year with a feeling of increased confidence in the immediate future of our Company. I would now like to share with you the reasons for my own personal confidence.

SETTLEMENT OF LITIGATION

On May 29, 1969 an Agreement of Settlement was signed terminating all outstanding litigations arising from the Company's agreements of August 17, 1967 involving Zimoco Petroleum Corporation and Monarch Chemical and Mining Corporation. The settlement has been unanimously approved by our Board of Directors.

Among other things, Sidney A. Zimet has agreed to return to Alscope a gross total of 886,000 shares of our common stock, the bulk of which will be ultimately returned as Treasury stock. He is required to completely sever his connection with the Company and to sell all of his remaining shares of Alscope stock. In addition, the extent of the Company's possible liabilities with respect to the assets of Zimoco and Monarch has been drastically reduced by a net amount of approximately \$400,000.00.

A copy of the Agreement of Settlement will be available for inspection at the annual meeting of shareholders to be held at 10:00 A.M. on June 30, 1969 in the Library Room of the Royal York Hotel, Toronto, Canada.

It is management's considered opinion that the termination of the litigation and the terms of settlement will materially improve the financial position of the Company. Management believes that this settlement will facilitate and accelerate the development of the Company's various assets and properties.

RECENT DEVELOPMENTS

The Company has undertaken an intensive research and development program for its Sulphur extraction process and its Nitrocell pulp process. The well-known outstanding firm of Kilborn Engineering Ltd. of Toronto, Canada was

engaged by us to make feasibility studies of both processes. We are pleased to advise you that Kilborn has reported that pilot plant operations of both processes have met with success. Their engineers have confirmed to us that their testing programs establish the feasibility and market economics of both processes.


The Company has completed its sulphur pilot plant at Bakersfield, California and the Nitrocell pulp pilot plant in Toronto is now nearing completion. The erection of both pilot plants has been under the general supervision of Kilborn Engineering. There are patents pending in the United States and Canada for both processes and patent applications are now being filed in other countries.

During the past year, our Company entered into an agreement with Oak Pulp and Paper Co., an Oklahoma corporation, whereby, among other things, a Nitrocell pulp plant in the Poteau area of Oklahoma will be constructed by Oak Pulp and Paper Co., upon the completion of a satisfactory and favorable economic and feasibility study now being made by Kilborn Engineering. Of course, it is not known at this time whether such a Nitrocell plant will actually be constructed but preliminary indications do indicate that the outlook for the ultimate construction of such a plant is favorable.

Alscope has entered into an agreement with Nitracell Canada Ltd., a Canadian corporation, whereby a license is granted with favorable terms of compensation to our Company for the use of the Nitrocell pulp process in Canada, exclusive of the Province of New Brunswick. Our Company will have no financial obligations under this agreement.

In the belief that the Philippine Islands offer a splendid opportunity for the application of the Nitrocell process to such native fibers as abaca as well as to various agricultural wastes, management has undertaken laboratory tests here and in the Philippines for the purpose of ascertaining the feasibility of such a program. It is expected that these tests will be concluded within the next several months.

During the past year, the Company entered into agreements with Power Gas Corporation of America for a study to determine the feasibility of erecting a plant for the production of sulfuric acid and cement from gypsum using the Marchon process on or near the gypsum deposits owned by United Gypsum Corporation Ltd., our controlled subsidiary, on the Lussier River at Skookumchuck, British Columbia. The reports to date have been encouraging. Power Gas estimates that the cost of a projected plant would be approximately \$18,380,000.00. It is believed that the major part of the cost of such a plant is fundable and could be financed through various agencies and companies of the United Kingdom. The ultimate construction of the plant, assuming that all market studies are favorable and financing arrangements can be consummated, will require from 2 to 3 years.



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During the past year your Company acquired Potash Permit #1 near Regina, Saskatchewan, through its wholly-owned subsidiary Scope Developments Ltd.. This permit area is fairly extensive comprising in all approximately 162,000 acres within the boundaries of the prospecting permit. Indications from preliminary reports are favorable. The permit is contiguous with Kalium Chemicals Permit No.1A where a solution potash mine is already being operated by Kalium. Alscope plans to carry out provincial regulations with respect to expenditures for the exploration and development of these properties. It is anticipated that these operations will be commenced before the end of 1969.

Alscope is presently studying and assessing the potential of its Soilzone Industries Division in California which will be operated by a newly formed and wholly-owned subsidiary known as Soilzone Industries Inc.. If results of the Company's continuing studies are favorable and the necessary financing can be obtained, this division will engage in the production, manufacture, sale and distribution of various types of agricultural fertilizers and chemicals.

During the past year Alscope acquired a number of additional mineral properties and claims, including some near Uranium City and in the Wollaston Lake area of Saskatchewan, Port Alberni, Vancouver Island and Tunkwa Lake, both in British Columbia.

In addition, an operating agreement was concluded for the drilling of additional wells in the Hatton-Gas Field area of Saskatchewan with our operating partners. To date, 20 additional wells have been drilled in the Hatton-Gas Field and are now in production. Alscope retains an 11.13% carried interest in all of these properties and wells in a unitizing arrangement made with the Saskatchewan Power Corporation, a Crown corporation of the Province of Saskatchewan.

Management is now going forward with a program of obtaining new financing on the basis of an underwriting commitment to sell between \$1,500,000.00 to \$4,000,000.00 of its convertible debentures.

U.S. EQUALIZATION EXEMPTION

Our old stockholders are aware that on December 14, 1964 the Company was granted a Certificate of Exemption from the provisions of the U.S. Tax Equalization Act of 1964 by the Commissioner of Internal Revenue, Washington, D.C.. Under this exemption all purchase of Alscope shares are exempt from the U.S. Equalization Tax imposed by this Act, retroactively to July 19, 1963.

CONCLUSION

The Company's audited statement for the fiscal year ended October 31, 1968 is enclosed with this report. It reflects, of course, the complex problems and difficulties which we encountered in the recent past. The forward looking steps the Company is now taking should produce for us, I am hopeful, a more favorable financial statement for the fiscal year ending October 31, 1969.

On behalf of management, may I express the gratitude of all of us to our employees and our consultants for their loyalty and cooperation during the difficulties of this past year. We wish to express our appreciation and thanks also to our shareholders for their understanding, cooperation and patience during this difficult period.

Respectfully submitted,

ON BEHALF OF THE BOARD OF DIRECTORS

A handwritten signature in dark ink, reading "Nicholas Martini". The signature is fluid and cursive, with the first name "Nicholas" and last name "Martini" clearly distinguishable.

Nicholas Martini, President

NM:fr
Encs.

This report is for the information of Alscope Shareholders only and is not a prospectus nor an offer to sell shares of Alscope Consolidated Ltd. and must not under any circumstances be used or considered for that purpose.

ALSCOPE CONSOLIDATED LTD.

Consolidated financial statements

31 October 1968

DUNWOODY & COMPANY

Internationally

LASSER, HARMOOD-BANNER & DUNWOODY

ALSCOPE CONSOLIDATED LTD.

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31 October 1968

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DUNWOODY & COMPANY

Internationally

LASSER, HARMOOD-BANNER & DUNWOODY

Chartered Accountants ☐ Suite 660, One Bentall Centre, Vancouver 1, B.C., Canada ☐ 688-5421

27 May 1969

To the Shareholders,
Alscope Consolidated Ltd.

We have examined the consolidated balance sheet of Alscope Consolidated Ltd. as at 31 October 1968 and the related consolidated statements of operations and deficit, receipts and disbursements and preliminary and development costs for the year then ended and the notes thereto. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. We have relied on the report of a firm of Public Accountants who examined the financial statements of subsidiaries in the United States.

The consolidated financial statements are subject to the outcome of the following matters:

- (a) The ultimate realization or other disposition of deferred preliminary and development costs, processes and properties, which require additional financing, and the investment referred to in note 3 to the financial statements, and
- (b) The final determination of the litigation described in note 8.

Due to problems related to the litigation referred to in note 8, accounting records of Monarch Chemical and Mining Corporation and records pertaining to the net assets acquired from Zimoco Petroleum Corporation were not maintained on a current basis during the year under review nor was there adequate substantiation or documentation of transactions.

Because of the matters referred to in the preceding two paragraphs, we do not express an opinion on the aforementioned financial statements.

Dunwoody & Company

Chartered Accountants.

ALSCOPE CONSOLIDATED LTD.

Consolidated balance sheet

as at 31 October 1968

	1968	1967		1968	1967
CURRENT ASSETS			CURRENT LIABILITIES		
Cash in bank	\$ 5,718	\$ 571	Notes payable - banks	\$ 108,679	\$ -
Notes, advances and accounts receivable - (net of allowance for doubtful accounts of \$98,440) - Note 4	69,392	28,449	Accounts payable and accrued expenses	421,111	33,017
Prepaid expenses	<u>11,210</u>	<u>-</u>	Notes and loans payable - partially secured - Note 6	404,296	6,244
	<u>86,320</u>	<u>29,020</u>	Advances from directors	56,269	-
			Notes and advances due to shareholder	<u>229,039</u>	<u>-</u>
				<u>1,219,394</u>	<u>39,261</u>
INVESTMENT AND ADVANCES			MINORITY SHAREHOLDERS' INTEREST	<u>227</u>	<u>227</u>
United Gypsum Corporation Ltd. - Note 3					
Shares - at cost	161,418	161,418	SHAREHOLDERS' EQUITY		
Advances	<u>69,044</u>	<u>47,714</u>	Share capital - Note 7		
	<u>230,462</u>	<u>209,132</u>	Authorized		
			20,000,000 common shares of no par value		
PROPERTY, PLANT AND EQUIPMENT - Note 5			Issued		
Machinery and equipment - partially pledged	130,503	72,271	9,623,326 shares	4,766,601	3,661,660
Producing oil and gas properties - partially pledged	245,193	-	(195,331) shares held by subsidiary	(44,927)	-
Furniture and fixtures	<u>5,682</u>	<u>2,583</u>			
	381,378	74,854	9,427,995 shares	4,721,674	3,661,660
Less - accumulated depreciation and depletion	<u>86,946</u>	<u>58,717</u>			
	294,432	16,137	Deduct - subscriptions outstanding	-	82,208
Non-producing oil and gas properties	30,796	53,188		4,721,674	3,579,452
Mineral properties	237,809	187,209			
Plants in process	<u>118,993</u>	<u>-</u>	Deficit	(2,879,752)	(2,542,043)
	<u>682,030</u>	<u>256,534</u>		<u>1,841,922</u>	<u>1,037,409</u>
OTHER ASSETS			Commitments and contingencies - Note 8		
Preliminary and development costs	841,415	414,193			
Patents and processes - Note 2	851,695	141,959	Approved on behalf of the Board		
Art objects and antiques - at cost plus carrying charges - pledged - Note 6	318,422	-			
Security deposits	5,624	-	Director		
Organization expenses - net of amortization	30,457	26,059			
Unrealized loss on conversion of U. S. funds	6,698	-	Director		
Exchange on consolidation	<u>8,420</u>	<u>-</u>			
	<u>2,062,731</u>	<u>582,211</u>			
	<u>\$3,061,543</u>	<u>\$1,076,897</u>		<u>\$3,061,543</u>	<u>\$1,076,897</u>

The accompanying notes are an integral part of this statement.

ALSCOPE CONSOLIDATED LTD.

Consolidated statement of operations and deficit
for the year ended 31 October 1968

OPERATIONS

Income from oil and gas operations		\$ 19,875
Less - operating expenses		5,582
		<hr/>
		14,293

Expenses

Legal and audit	\$ 14,058	
Telephone	1,252	
Stationery and office expense	1,161	
Interest expense	10,139	
Bad debts	21,400	
Depreciation	1,209	
Depletion	3,771	
Travel and entertainment	765	
Transfer agent fees	368	
Miscellaneous	<u>2,282</u>	<u>56,405</u>
Net loss from operations		\$42,112

Other charges

Preliminary and development costs written off	238,907	
Gas and oil properties written off	<u>56,690</u>	<u>295,597</u>
		337,709

DEFICIT, beginning of year 2,542,043

BALANCE OF DEFICIT, end of year \$2,879,752

The accompanying notes are an integral part of this statement.

ALSCOPE CONSOLIDATED LTD.

Consolidated statement of preliminary and development costs
for the year ended 31 October 1968

	Balance beginning of year	Additions	Written off to deficit	Balance end of year
PROPERTY DEVELOPMENT AND EXPLORATION	\$277,433	\$ 93,082	\$ 76,232	\$294,383
PROCESS DEVELOPMENT	-	37,270	-	37,270
EQUIPMENT EXPENSES				
Depreciation	32,650	7,434	24,776	15,308
Maintenance and operation	8,323	7,314	4,439	11,198
Rental	-	1,129	-	1,129
ADMINISTRATION AND OTHER EXPENSES				
Consulting and professional fees	-	25,475	-	25,475
Legal and audit	4,218	108,708	15,215	97,711
Office, telephone and sundry	53,128	106,922	62,968	97,082
Registrations and stock exchange fees	4,922	2,247	2,845	4,324
Rent	-	26,357	-	26,357
Transfer agents' fees and expenses	5,901	9,161	10,575	4,487
Salaries, wages and related expenses	-	111,021	-	111,021
Travel	16,498	108,063	29,813	94,748
Advertising and promotion	9,865	917	10,277	505
Insurance	878	8,827	173	9,532
Bank charges and interest	377	12,202	1,594	10,985
	<u>\$414,193</u>	<u>\$666,129</u>	<u>\$238,907</u>	<u>\$841,415</u>

The accompanying notes are an integral part of this statement.

ALSCOPE CONSOLIDATED LTD.

Consolidated statement of cash receipts and disbursements

for the year ended 31 October 1968

RECEIPTS

Bank loans	\$963,000	
Advances from directors	54,975	
Other loans and advances	184,042	
Share subscriptions	82,208	
Oil and gas receipts	7,890	
Release of escrow deposits	68,346	
Recovery of costs of oil and gas properties	22,500	
Other receipts	4,791	
Cash on hand - date of acquisition of subsidiary	5,339	
Cash on hand - acquisition of Zimoco Petroleum Corporation assets	<u>597</u>	\$1,393,688

DISBURSEMENTS

Repayment of bank loans	963,000	
Repayment of other loans and advances	16,433	
Property, plant and equipment	73,512	
Processes and patents	4,133	
Escrow deposits	11,600	
Costs of increasing share capital	2,200	
Advances to United Gypsum Corporation	21,330	
Transfer agents' fees and expenses	10,659	
Travel and entertainment	37,195	
Stock exchange fees and registrations	2,247	
Property development and exploration	64,965	
Process development	4,981	
Rent	6,237	
Interest	7,404	
Officers' salaries	8,266	
Other salaries and wages	13,812	
Payroll and local taxes	6,253	
Office, telephone and sundry	58,160	
Legal, accounting and audit	25,594	
Consulting and other professional fees	26,386	
Exchange on conversion of U. S. funds	6,698	
Carrying charges - art objects and antiques	5,559	
Royalties	2,675	
Prepaid expenses and deposits	6,975	
Other disbursements	<u>2,267</u>	<u>1,388,541</u>

EXCESS OF CASH RECEIPTS OVER DISBURSEMENTS 5,147

CASH ON HAND, BEGINNING OF YEAR 571

CASH ON HAND, END OF YEAR \$ 5,718

The accompanying notes are an integral part of this statement.

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

1. Principles of consolidation

(a) These financial statements include the following companies -

1. Parent company

Alscope Consolidated Ltd.

2. Wholly-owned subsidiaries

Magnum Holdings Ltd.

Scope Developments Ltd.

Alscope Limited

Monarch Chemical and Mining Corporation

Stone Eagles Estates, Inc. (See Note 8(a))

Nitracell, Inc.

Soilzones Industries, Inc.

3. 80% owned subsidiary

Dorian Mines Ltd. (N.P.L.)

(b) Accounts of United States subsidiaries have been converted to Canadian funds at the rate of \$1.07 Canadian to \$1.00 U.S.

2. General

Alscope Limited was incorporated 8 December 1967 and issued 100 shares of \$1.00 (U.S.) par value each to Alscope Consolidated Ltd. in exchange for 4,584,090 shares of that company. Valuation of these shares was based on consolidated book value per share of the parent company immediately prior to issue.

On 22 December 1967, Alscope Limited used 4,036,759 shares in Alscope Consolidated Ltd. to acquire all of the assets, subject to all of the liabilities, of Zimoco Petroleum Corporation (including all of the issued shares of Stone Eagles Estates, Inc.) and all of the issued shares of Monarch Chemical and Mining Corporation, including 430,428 shares held by Zimoco Petroleum Corporation. Included in the assets of Monarch Chemical and Mining Corporation is the ownership of processes for the extraction of sulphur and mercury. The results of operations of these companies from the date of acquisition are included in these financial statements. (See Note 8(a))

352,000 shares of Alscope Consolidated Ltd. were used to acquire all of the assets of Nitracell, Inc., including a pulp conversion process.

The remaining 195,331 shares of Alscope Consolidated Ltd. are held by Alscope Limited.

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

2. General - continued

Assets acquired as above have been valued as follows:

	Number of shares	Value
Total shares issued	4,584,090	\$1,054,341
Less - held by Alscope Limited as at 31 October 1968	<u>195,331</u>	<u>44,927</u>
Total shares used to acquire assets as above	<u>4,388,759</u>	1,009,414
Applied -		
Net tangible assets acquired valued at book values per books of acquired or pre- decessor companies		<u>297,876</u>
Balance attributed to processes		\$ 711,538

3. Investment

The company holds approximately 80% of the issued share capital of United Gypsum Corporation Ltd. These shares are held in escrow subject to the order of the Superintendent of Brokers of the Province of British Columbia and are held as an investment by the Company. For this reason the accounts of this company have not been included in these financial statements.

The Company acquired 100,000 shares for \$12,000 cash in 1963 and 796,896 shares on 3 May 1965 by the issuance of 199,224 shares of the parent company. Equity of Alscope Consolidated Ltd. in United Gypsum Corporation Ltd. as indicated by audited financial statements of that company for its last fiscal year amounted to \$42,646, compared to cost of \$161,418.

While the shares are held in escrow they cannot be traded.

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

4. Notes, advances and accounts receivable

Receivables include amounts due from various co-venturers for operating expenses of oil interests charged by the Company. Income which is payable to the same co-venturers has been offset against the amounts due from the co-venturers in accordance with opinion of counsel.

Amounts due from co-venturers	\$110,902
Less - accounts payable offset	<u>58,132</u>
Net due from co-venturers	52,770
Less - allowance for doubtful accounts	<u>51,670</u>
Net amounts due from co-venturers, included in notes, advances and accounts receivable	\$ 1,100

5. Property, plant and equipment

(a) Machinery and equipment

Producing oil and gas properties

Furniture and fixtures

These assets are reflected at cost, less accumulated depreciation and depletion to date, as follows -

Asset	Cost	Accumulated depreciation and depletion	Net
Machinery and equipment	\$130,503	\$70,504	\$ 59,999
Producing oil and gas properties	245,193	14,845	230,348
Furniture and fixtures	<u>5,682</u>	<u>1,597</u>	<u>4,085</u>
	<u>\$381,378</u>	<u>\$86,946</u>	<u>\$294,432</u>

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

5. Property, plant and equipment - continued

(b) Mineral properties

Mineral properties are reflected at cost, except for certain properties which have been reduced to a nominal value or written off where there is no potential value.

(c) In 1966 Zimoco sold certain oil properties, subject to a reservation of a net profit overriding royalty interest equal to 50% of the net profits before income taxes, depreciation and depletion, but after recovery by the purchaser of its cost of acquiring the properties. Because of the contingent nature of this reservation as an asset, the Company has not assigned any value thereto in the financial statements. (See Note 8(a))

(d) Plants in process - at cost

These are expenditures to date for the construction of pilot plants for the extraction of sulphur and the production of pulp, and costs for the perfection and completion of furnaces for the extraction of mercury.

(e) Depreciation and depletion

Depreciation has been computed using the straight-line method.

Depletion of oil and gas property costs is computed by using the unit of production method based upon estimated recoverable reserves established in 1966 by independent consulting petroleum engineers and geologists which report estimated reserves as of 1 October 1965.

Costs of nonproducing oil and gas properties are charged to income when abandoned.

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements
as at 31 October 1968

6. Notes and loans payable

(a) 6% demand note payable by Stone Eagles Estates, Inc. secured by a chattel mortgage on art objects and antiques, a first lien on an interest in a gas well and hypothecation of all the ordinary outstanding shares of Stone Eagles Estates, Inc. (See Note 8(a))	\$214,000
(b) Unsecured 6% notes payable	141,866
(c) Notes payable, due in monthly installments, secured by machinery and equipment	21,888
(d) Other	<u>26,542</u>
	<u>\$404,296</u>

7. Share capital

(a) Authorized

Authorized share capital was increased on 2 January 1968 from 10,000,000 no par value shares with a maximum consideration of \$1.00 each, to 20,000,000 no par value shares with a maximum consideration of \$1.00 each.

(b) Issued and outstanding

	Shares	Amount
Issued for cash		
Balance, 31 October 1967	<u>1,742,963</u>	<u>\$1,465,727</u>
Issued for other than cash		
Balance, 31 October 1967	3,076,273	2,195,933
Issued to Alscope Limited - see Note 2	4,584,090	1,054,341
Acquisition of potash permits	<u>220,000</u>	<u>50,600</u>
Balance issued for other than cash	7,880,363	3,300,874
Less - held by subsidiary at 31 October 1968 - see Note 2	<u>195,331</u>	<u>44,927</u>
	<u>7,685,032</u>	<u>3,255,947</u>
Total per balance sheet	<u>9,427,995</u>	<u>\$4,721,674</u>

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

8. Commitments and contingencies

(a) Litigation

- (i) The Company and its subsidiary, Alscope Limited, are engaged in litigation against Zimoco Petroleum Corporation and various individuals to recover 2,604,090 shares of Alscope Consolidated, Ltd. stock which the Company issued on 22 December 1967 in connection with the acquisition of Zimoco's net assets (but exclusive of Zimoco's shares of Monarch Chemical and Mining Corporation).

If the litigation were successful, the Company would re-acquire the 2,604,090 shares and would simultaneously restore to Zimoco the net assets acquired from that corporation. In addition, the litigation seeks the recovery of approximately \$17,000,000 in damages.

The lawsuits are based on the claims of management that certain warranties and representations made by Zimoco and the other defendants were fraudulent. In the opinion of counsel, the Company has a meritorious claim and should be successful in the pending litigation.

By means of an informal agreement between the Company and the predecessor company, Zimoco Petroleum Corporation, the assets and liabilities of Stone Eagles Estates, Inc. have been retained by Zimoco. A formal agreement to this effect has not yet been executed. Pending execution of a formal contract and resolution of the issues involved in the above actions, the Company carries the net assets acquired from Zimoco, including Stone Eagles, and reflects the results of operations of Zimoco in its financial statements.

The net assets at 31 October 1968 referred to in the preceding paragraph included in the consolidated balance sheet are summarized as follows:

Current assets	\$ 22,470
Property, plant and equipment - Net	252,520
Other assets	<u>323,140</u>
	598,130
Current liabilities	<u>612,040</u>
Net assets (deficiency)	(\$ 13,910)

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

8. Commitments and contingencies - continued

(a) Litigation - continued

If the rescission is successful, the Company would incur a liability for the intercompany accounts (now eliminated in consolidation) owing to Zimoco which amount to approximately \$100,000.

The results of operations from 22 December 1967 (date Zimoco was acquired) to 31 October 1968 resulted in a net loss of \$92,338.

- (ii) The Company is a defendant in other litigation commenced by one of the parties in the above-mentioned lawsuits with reference to substantially the same transactions upon which Alscope has based its own lawsuits. In the opinion of counsel, the claims asserted against the Company are without merit and liability, if any, of the Company would not be substantial.
- (iii) An action has been commenced by a former stockholder of the corporation on his own behalf and allegedly on behalf of other persons similarly situated for damages allegedly sustained by reason of the financial statements as at 31 July 1967 furnished to stockholders of Alscope in connection with the acquisition of the net assets of Zimoco Petroleum Corporation and the stock of Monarch Chemical and Mining Corporation. The merits of this litigation and the extent of the possible damages recoverable have not been fully explored by counsel and the ultimate materiality of liability, if any, cannot be determined.
- (iv) At the date of acquisition of the net assets of Zimoco by Alscope Limited, Zimoco was a co-defendant in an action which commenced in 1964 seeking rescission and damages for alleged violation of the Securities Act of 1933.

Counsel for the Company has no information as to the current status of this litigation.

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

8. Commitments and contingencies - continued

- (b) In May 1967, Stone Eagles Estates, Inc. contracted to acquire real estate for \$207,580 with a closing date of November 1967. The closing date has been extended for an indefinite period of time.
- (c) The Company has acquired a chemo-electric furnace for the extraction of mercury for which it has agreed to pay \$69,550 out of 50% of the net profits, if any, derived therefrom. At 31 October 1968, the Company is still in the process of completing and perfecting this furnace. As no profit has been derived to date, no liability is reflected in the financial statements.
- (d) A subsidiary, in connection with its acquisition of various processes, entered into agreements whereby the Company is required to pay consultant fees as follows:
 - 1. \$21,400 per annum for five years, commencing June 1967.
 - 2. \$26,750 per annum for ten years, commencing March 1968.
- (e) On 18 November 1966 the Company entered into an agreement with Payco Mines Ltd. (N.P.L.) whereby the Company agreed to develop certain of Payco's mining claims in return for recovery of the development costs, together with interest at 6% and a 70% share in the net profits if the Company proceeded with development.

Upon expiration of this agreement, the Company decided not to proceed with production. As a result, development costs applicable to Payco are included in development costs written off to deficit. The Company has not yet obtained a release from Payco Mines Ltd. (N.P.L.) in regard to expenditures required under this agreement.

ALSCOPE CONSOLIDATED LTD.

Notes to the consolidated financial statements

as at 31 October 1968

8. Commitments and contingencies - continued

- (f) In connection with the acquisition of certain mineral rights in the Province of Saskatchewan, Scope Developments Ltd. is required under Provincial regulations to expend the following amounts in exploration and development -

1968/1969	\$ 40,000
1969/1970	40,000
1970/1971	80,000
1971/1972	<u>80,000</u>
	\$240,000
	<u><u> </u></u>

- (g) At 31 October 1968, a subsidiary was committed under an equipment lease agreement to an aggregate rental of approximately \$51,400, payable to a director of the company.

RESEARCH REPORT NO. 100

THE EFFECT OF THE RESEARCH REPORT NO. 100

ON THE RESEARCH REPORT NO. 100

RESEARCH REPORT NO. 100

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